

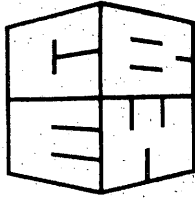
**RURAL WATER DISTRICT NO. 4  
PAYNE COUNTY  
Yale, Oklahoma**

**BASIC FINANCIAL STATEMENTS  
June 30, 2013**

RURAL WATER DISTRICT No. 4  
PAYNE COUNTY  
Yale, Oklahoma

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## INDEPENDENT AUDITOR'S REPORT

April 16, 2014

Board of Directors  
Rural Water District No. 4  
Payne County  
Yale, Oklahoma

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Rural Water District No. 4, Payne County, Yale, Oklahoma (the District), as of and for the year ended June 30, 2013 and 2012, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Rural Water District No. 4, Payne County, Yale, Oklahoma as of June 30, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

The District has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2014, on our consideration of the Rural Water District No. 4's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Rural Water District No. 4's internal control over financial reporting and compliance.

*CBEW Professional Group, LLP*

CBEW Professional Group, LLP  
Certified Public Accountants

RURAL WATER DISTRICT NO. 4  
PAYNE COUNTY  
Yale, Oklahoma

STATEMENT OF NET POSITION  
June 30, 2013 and 2012

	June 30, 2013	June 30, 2012
<b>Current assets:</b>		
Cash and cash equivalents (Note 1)	\$ 203,741	\$ 143,288
Investments	85,502	85,026
Receivables (net of allowance for uncollectible of \$1473)	38,504	45,163
Prepaid insurance	2,365	2,372
Accrued interest receivable	77	101
OWRA reserves	1,000	1,000
Temporarily restricted:		
Cash and cash equivalents (Note 2)	6,192	6,192
<b>Total current assets</b>	<u>337,381</u>	<u>283,142</u>
<b>Capital assets:</b>		
Water system, improvements and equipment, net of depreciation (Note 4)	<u>197,562</u>	<u>212,240</u>
<b>Total capital assets</b>	<u>197,562</u>	<u>212,240</u>
<b>Total assets</b>	<u>534,943</u>	<u>495,382</u>
<b>Deferred outflows of resources:</b>		
<b>Total deferred outflows</b>	<u>-</u>	<u>-</u>
<b>Current liabilities:</b>		
Accounts payable	7,992	7,992
Accrued water purchases	(2,840)	3,114
Accrued interest payable	53	64
Current portion of notes payable (Note 3)	5,690	5,413
<b>Total current liabilities</b>	<u>10,895</u>	<u>16,583</u>
<b>Long-term liabilities:</b>		
Notes payable (Note 3)	<u>18,334</u>	<u>23,469</u>
<b>Total long-term liabilities</b>	<u>18,334</u>	<u>23,469</u>
<b>Total liabilities</b>	<u>29,229</u>	<u>40,052</u>
<b>Deferred inflows of resources:</b>		
<b>Total deferred inflows</b>	<u>-</u>	<u>-</u>
<b>Net position:</b>		
Invested in capital assets, net of related debt	173,538	183,358
Temporarily restricted (Note 2)	6,192	6,192
Unrestricted	<u>325,984</u>	<u>265,780</u>
<b>Total net position</b>	<u>\$ 505,714</u>	<u>\$ 455,330</u>

The accompanying notes are an integral part of the basic financial statements.

**RURAL WATER DISTRICT NO. 4**  
**PAYNE COUNTY**  
**Yale, Oklahoma**

**STATEMENT OF ACTIVITIES**  
**For the Years Ended June 30, 2013 and 2012**

	<u>June 30,</u> <u>2013</u>	<u>June 30,</u> <u>2012</u>
<b>Revenues:</b>		
Water sales	\$ 244,992	\$ 213,957
Installation income	660	4,262
Membership income	<u>5,293</u>	<u>1,050</u>
<b>Total revenues</b>	<u>250,945</u>	<u>219,269</u>
<b>Expenses:</b>		
Accounting and legal	4,100	4,100
Bad Debt Expense	-	992
Bookkeeping services	9,927	9,600
Depreciation	14,677	16,443
Dues and subscriptions	292	-
Insurance	2,587	2,883
Lab tests	2,061	569
Office supplies and postage	458	1,908
Repair and maintenance	21,463	14,433
Supplies	9,448	14,924
Subcontractor labor	35,224	26,766
Rent - Building	3,600	3,600
Rent - Equipment	-	30
Water purchases	<u>96,357</u>	<u>113,956</u>
<b>Total expenses</b>	<u>200,194</u>	<u>210,204</u>
<b>Operating income (loss)</b>	<u>50,751</u>	<u>9,065</u>
<b>Other income and expense:</b>		
Interest income	956	1,928
Interest expense	<u>(1,323)</u>	<u>(1,897)</u>
<b>Total other income and expense</b>	<u>(367)</u>	<u>31</u>
<b>Change in net position - net income (loss)</b>	50,384	9,096
<b>Net position - beginning of year</b>	<u>455,330</u>	<u>446,234</u>
<b>Net position - end of year</b>	<u>\$ 505,714</u>	<u>\$ 455,330</u>

The accompanying notes are an integral part of the basic financial statements.

RURAL WATER DISTRICT NO. 4  
PAYNE COUNTY  
Yale, Oklahoma

STATEMENT OF CHANGES IN NET POSITION  
For the Years Ended June 30, 2013 and 2012

	Net Position (Unrestricted)	Net Position (Temporarily Restricted)	Total Net Position
Balance - beginning of year 6-30-11	440,042	6,192	446,234
Change in net position	<u>9,096</u>	<u>-</u>	<u>9,096</u>
Balance - end of year 6-30-12	\$ <u>449,138</u>	\$ <u>6,192</u>	\$ <u>455,330</u>
Balance - beginning of year 6-30-12	449,138	6,192	455,330
Change in net position	<u>50,384</u>	<u>-</u>	<u>50,384</u>
Balance - end of year 6-30-13	\$ <u>499,522</u>	\$ <u>6,192</u>	\$ <u>505,714</u>

The accompanying notes are an integral part of the basic financial statements.

**RURAL WATER DISTRICT NO. 4  
PAYNE COUNTY  
Yale, Oklahoma**

**STATEMENT OF CASH FLOWS  
For the Years Ended June 30, 2013 and 2012**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 257,628	\$ 202,258
Cash payments to suppliers for goods and contractors and other services	<u>(191,465)</u>	<u>(185,880)</u>
<b>Net cash provided by operating activities</b>	<u>66,163</u>	<u>16,378</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	-	-
Release of restriction on reserve account	-	-
Principal paid on debt	(4,858)	(4,286)
Interest paid on debt	<u>(1,334)</u>	<u>(1,906)</u>
<b>Net cash used in capital and related financing activities</b>	<u>(6,192)</u>	<u>(6,192)</u>
<b>Cash flows from investing activities:</b>		
Interest income	956	1,251
Addition to Investments	<u>(474)</u>	<u>-</u>
<b>Net cash provided by investing activities</b>	<u>482</u>	<u>1,251</u>
<b>Net increase (decrease) in cash</b>	60,453	11,437
<b>Cash and cash equivalents at beginning of year</b>	<u>143,288</u>	<u>131,851</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 203,741</u>	<u>\$ 143,288</u>
<b>Reconciliation of operation income to net cash provided by operating activities:</b>		
Operating income (loss)	\$ <u>50,751</u>	\$ <u>9,065</u>
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation	14,677	16,443
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	6,683	(17,011)
(Increase) decrease in prepaid expenses	7	4
Increase (decrease) in accounts payable	(0)	6,860
Increase (decrease) in accrued water purchases	<u>(5,954)</u>	<u>1,017</u>
<b>Total adjustments</b>	<u>-15,413</u>	<u>7,313</u>
<b>Net cash provided by operating activities</b>	<u>\$ 66,163</u>	<u>\$ 16,378</u>

The accompanying notes are an integral part of the basic financial statements.



**RURAL WATER DISTRICT NO. 4  
PAYNE COUNTY  
Yale, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2013 and 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Rural Water District No. 4, Payne County, Oklahoma (the District), was created under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive, for the purpose of providing water to the members it serves. Membership in the water district consists of water users who have paid the required membership and connection fees. The District is exempt from federal and state income taxes.

The District is a governed entity administered by a Board of Directors that act as the authoritative and legislative body of the entity. The Board is comprised of elected members, four of which are elected as officers of the District. All Board members serve without pay.

The more significant of the government's accounting policies are described below.

**A. Reporting Entity**

Rural Water District No. 4 is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges. The District purchases all of its water from Lone Chimney Water Association.

**B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the statement of net assets. The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Depreciation expense is provided for capital assets based upon estimated useful lives.

Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 29 PCPPA has elected to only apply Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) and Accounting Research Board (ARB) materials issued on or before November 30, 1989 that do not conflict with GASB.

**C. Assets, Liabilities and Equity**

**1. Deposits and Investments**

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

All the bank deposits are held at two different financial institutions and are carried at cost. For purposes of statements of cash flows, the District considers cash and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

RURAL WATER DISTRICT NO. 4  
PAYNE COUNTY  
Yale, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

1. Deposits and Investments (Continued)

*Custodial Credit Risk*

At June 30, 2013, the District held deposits of approximately \$295,435 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

*Investment Interest Rate Risk*

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Investment Credit Risk*

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

The investments held at June 30, 2013 are as follows:

Type	(Months)	Rating	Value	Cost
Investments				
Certificates of deposit	12.00	N/A	\$ 85,502	\$ 85,502
Total investments			<u>\$ 85,502</u>	<u>\$ 85,502</u>

RURAL WATER DISTRICT NO. 4  
PAYNE COUNTY  
Yale, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2013 and 2012

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Assets, Liabilities and Equity (Continued)**

**1. Deposits and Investments (Continued)**

*Concentration of Investment Credit Risk*

The District places no limit on the amount it may invest in any one issuer. The District has the following of credit risk: 100% in Certificates of Deposit (\$85,502).

**2. Fair Value of Financial Instruments**

The District's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net assets. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

**3. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**4. Inventories**

Inventories consist primarily of water stored in lines for use in the distribution process. Inventory is expensed when purchased.

**5. Capital Assets**

Additions to the water storage delivery system and other equipment are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The District does not currently have a capitalization policy in place.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Water system	40 years
Line additions	35 years
Equipment	10 years
Office equipment	10 years

**RURAL WATER DISTRICT NO. 4  
PAYNE COUNTY  
Yale, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2013 and 2012**

**2. TEMPORARILY RESTRICTED ASSETS**

Under the terms of the various note indentures with Rural Development, the District is required to make monthly contributions into a reserve account until a minimum balance of \$6,192 has been reached. The funds are temporarily restricted and are to be used for repairing or replacing damaged assets caused by unforeseen catastrophes. With prior written approval from Rural Development, the reserve funds can also be used for making improvements to the water system or for debt service. The balance at the end of the year was \$6,192.

**3. LONG-TERM DEBT**

Long-term debt consists of two notes with the United States Department of Agriculture, Rural Development (RD). The RD notes were issued during November 1978. The notes are secured by the water works system including distribution lines, pump stations and reservoirs. These RD notes are listed as follows:

Loan # 91-04 – Original amount of \$67,000, payable in monthly installments of \$329 for 40 years at 5% interest, maturing in November of 2018.

Loan # 91-06 – Original amount of \$38,000 payable in monthly installments of \$187 for 40 years at 5% interest, maturing in November of 2018.

The following is a summary of long-term debt transactions during the year:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013
USDA Rural Dev. - 91-04	18,553	-	3,090	15,463
USDA Rural Dev. - 91-06	10,329	-	1,768	8,561
Total	\$ 28,882	\$ -	\$ 4,858	\$ 24,024

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012
USDA Rural Dev. - 91-04	21,280	-	2,727	18,553
USDA Rural Dev. - 91-06	11,888	-	1,559	10,329
Total	\$ 33,168	\$ -	\$ 4,286	\$ 28,882

Annual cash requirements to amortize these notes are as follows:

Year Ending June 30,	Payments Due
2014	6,192
2015	6,192
2016	6,192
2017	6,192
2018	2,000
Total	26,768
Less Interest	(2,744)
Note Balance	24,024

**RURAL WATER DISTRICT NO. 4**  
**PAYNE COUNTY**  
**Yale, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2013 and 2012**

**3. LONG-TERM DEBT (Continued)**

The District's debt service coverage ratios for June 30, 2013 and 2012 are 8.14 % and 1.47% respectively.

	2013	2012
Net Operating Income	50,384	9,096
Annual Debt	6,192	6,192
Debt Coverage Ratio	8.14	1.47

**4. CAPITAL ASSETS**

The following is a summary of changes in property, plant and equipment.

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Water System	\$ 687,600	\$ -	\$ -	\$ 687,600
Office Equipment	2,838	-	-	2,838
Total	690,438	-	-	690,438
Less accumulated depreciation	478,198	14,677	-	492,875
Net Capital Assets	\$ 212,240	\$ 14,677	\$ -	\$ 197,563

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Water System	\$ 687,600	\$ -	\$ -	\$ 687,600
Office Equipment	2,838	-	-	2,838
Total	690,438	-	-	690,438
Less accumulated depreciation	461,755	16,443	-	478,198
Net Capital Assets	\$ 228,683	\$ 16,443	\$ -	\$ 212,240

**5. RISK MANAGEMENT**

Rural Water District No. 4 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District continues to carry commercial insurance for these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

**6. WATER PURCHASE COMMITMENT**

The governing board of Rural Water District No. 4, Payne County, Yale, Oklahoma, together with seven other cities and rural water districts located in Noble, Pawnee, and Payne Counties, Oklahoma, have jointly formed Lone Chimney Water Association. The purpose of the Association is to provide a water system for the benefit of its members and other users. The District has entered into various loan agreements with the United States Department of Agriculture, Rural Development and the Oklahoma Water Resources Board to provide financing for the facility. Under the terms of the agreement regarding Rural Water District No. 4, each member has contracted to purchase a minimum amount of water from the Association during the 40-year term of the notes.

**RURAL WATER DISTRICT NO. 4**  
**PAYNE COUNTY**  
**Yale, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2013 and 2012**

**6. WATER PURCHASE COMMITMENT (Continued)**

In addition, each individual member is proportionately liable for any debts that exceed the assets of the Association to the extent of one and one-half times the percentage of ownership interest held by the entity pursuant to the agreement. The District is contingently liable for approximately 8% of the obligations of the Association, which total approximately \$2,515,000 to OWRB at year-end. The District's contingent share of Lone Chimney Water Association's debt is \$201,200.

At June 30, 2013, Rural Water District No. 4 was obligated to purchase a minimum of 25.2 million gallons of water annually, currently at a cost of \$63,000. The rates charged for the water can be adjusted every three years as necessary to provide sufficient revenues for the Association.

Future purchase commitments at current rates are as follows:

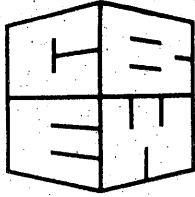
<u>June 30,</u>	<u>Amounts</u> <u>Due</u>
2014	\$ 63,000
2015	63,000
2016	63,000
2017	63,000
2018-2022	315,000
2023-2027	315,000
2028-2032	315,000
Total	\$ <u>1,197,000</u>

**7. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through April 16, 2014, which is the date the financial statements were available to be issued.

**RURAL WATER DISTRICT NO. 4  
PAYNE COUNTY  
Yale, Oklahoma**

**REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*  
June 30, 2013**



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

April 16, 2014

Board of Directors  
Rural Water District No. 4  
Payne County  
Yale, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Rural Water District No. 4, Payne County, Yale, Oklahoma (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 16, 2014. The District did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies as findings 13-01, 13-02 and 13-03.



Rural Water District No. 4  
April 16, 2014

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***District's Response to Findings***

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, according, we express no opinion on it.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*CBEW Professional Group, LLP*

CBEW Professional Group, LLP  
Certified Public Accountants

RURAL WATER DISTRICT NO. 4  
PAYNE COUNTY  
Yale, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2013

13-1. Internal Control – Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the district's assets and ensure accurate financial reporting.

Condition: Presently the same individual that receives utility service related cash payments is also responsible for service billing and adjustments, balances the daily cash drawer, posts payments to subsidiary accounts receivable ledger and reconciles the monthly bank statements. In addition, only limited oversight is provided over this individual in the conduct of their daily functions. This finding was also noted in 2012.

Cause: The district's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to utility billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend that management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation over utility cash and receivables. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts. For example, the entity might consider soliciting the assistance of independent volunteer labor to perform certain functions including performing compensating procedures where applicable.

Responsible Official's Response: The district concurs with the recommendation, although, the cost to correct this condition might exceed the benefit, the district has made certain changes in procedures that will improve the overall lack of segregation of duties and has implemented compensating procedures as appropriate.

13-2. Internal Control – Financial Statements

Criteria: The district's management is responsible for internal controls over financial reporting. This includes controls over the fair and complete presentation of the government's annual financial statements in accordance with GAAP. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). Professional audit standards clearly indicate that the external financial statement auditor cannot take responsibility for any part of management's control activities or be a component of the internal controls over financial reporting.

Condition: As is the case with many smaller and medium-sized entities, the District has relied on its independent external auditors to provide the needed expertise to assist in the preparation of the financial statements and footnotes as part of its controls over the external financial reporting process. Accordingly the District's ability to prepare financial statements in accordance with generally accepted accounting principles (GAAP) is based, in part, on its external auditors, who cannot by definition be considered a part of the District's internal controls. However, as required by professional standards the District has provided safeguards by designating a management level individual with suitable skill, knowledge and/or experience to oversee the services performed by our engagement, make all management decisions (e.g., determining or approving account classifications, adjusting journal entries, etc.) evaluate and monitor the performance and adequacy of the services, and take responsibility for the books, records and related financial statements. This finding was also noted in 2012.

**RURAL WATER DISTRICT NO. 4  
PAYNE COUNTY  
Yale, Oklahoma**

**SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2013**

Cause: Management has elected to use outside assistance from the external auditors to assist in meeting its responsibilities relative to preparing its annual financial statements. Although the District's management may lack certain expertise relative to preparing GAAP financial statements, professional standards do not require that the management or the individual possess the expertise to perform or re-perform all such services. The auditor has explained all proposed audit adjustments and their effect on the financial statements and the related note disclosures to management who has affirmed their understanding and agreement as required by professional standards.

Effect or Potential Effect: Although management has reviewed the financial statements drafted by the auditor and accepted full responsibility for them, the auditor could be placed in a questionable position regarding auditor independence as a result of potentially performing part of management's functions if management or its representative is unable to understand the nature of the services, evaluate its adequacy and accept responsibility for its results.

Recommendation: We recommend that the District consider designing and implementing further internal controls over financial reporting by obtaining additional expertise to process and summarize accounting data and prepare financial statements in accordance with generally accepted accounting principles without reliance on the external financial statement auditor. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Responsible Official's Response: The District concurs with the recommendation, and will strive to process and summarize accounting data and further understand the presentation and disclosure requirements of the financial statements.

**13-3. Internal Control – Material Adjusting Journal Entries**

Criteria: The district's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implementation of controls over the fair and complete presentation of the district's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the district's accounting records. For trial balances to be both complete and accurate, the district must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, district management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal controls, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

Condition: The district's trial balances for the year ended June 30, 2013, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: Capitalize asset expenditures, interest payments on notes, depreciation, and accounts receivable. This finding was also noted in 2012.

Cause: The district's accounting and financial reporting staff does not possess the formal knowledge, expertise and education, relative to the complex nature of applying GAAP applicable to state and local governments, sufficient to provide reasonable assurance that the trial balances used for preparing the GAAP financial statements are complete and accurate prior to audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balances. However, as required by professional standards, management had the capacity to review, understand and accept the adjusting entries proposed by the auditor in order to take full responsibility for them and the related financial statements.

Effect or Potential Effect: As a result of this condition, without assistance from its external auditors, the district lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence since management is responsible for the completeness and accuracy of the financial statements.

**RURAL WATER DISTRICT NO. 4  
PAYNE COUNTY  
Yale, Oklahoma**

**SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2013**

**Recommendation:** The district should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by obtaining additional knowledge, expertise, and continuing education to apply GAAP in the development of working trial balances that will be used to prepare the district's annual financial statements. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

**Responsible Official's Response:** The district concurs with the recommendation, and will strive to expand their knowledge and understanding to identify and correct material misstatements timely in order to prepare complete and accurate financial statements.